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FISCAL IMPACT STATEMENT

LS 6571

BILL NUMBER: HB 1368

NOTE PREPARED: Feb 20, 2006

BILL AMENDED: Feb 16, 2006

SUBJECT: PERF and TRF Cost-of-Living Adjustments.

FIRST AUTHOR: Rep. Neese

FIRST SPONSOR: Sen. Meeks

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides cost-of-living adjustments for certain members, survivors, and beneficiaries of the Teachers' Retirement Fund (TRF) beginning in 2007.

This bill also provides a 2% cost-of-living adjustment (COLA) for all members, survivors, and beneficiaries of the Public Employees' Retirement Fund (PERF) who were retired or disabled before January 1, 2006, beginning in 2007.

The bill provides for a thirteenth check in 2006 for PERF members, survivors, and beneficiaries based on the complete years of service credited to a member at retirement.

Effective Date: July 1, 2006.

Explanation of State Expenditures: *Teachers' Retirement Fund COLA:* The bill provides a one-time, permanent COLA for TRF members, survivors, and beneficiaries according to the following:

- 2% for members retired or disabled before July 2, 1991.
- 1.0% for members retired or disabled after July 1, 1991 and before July 2, 2004.
- 0% for members retired after July 1, 2004.

Fund	Increase in UAL*	Estimated Increase in Projected Benefit Payments		
	As of 6/30/05	FY 2007	FY 2008	FY 2009
Pre-1996 Fund	\$47,527,719	\$3,096,801	\$5,998,102	\$5,792,325
1996 Fund	\$1,562,104	\$ 88,313	\$ 171,072	\$ 166,128
Total	\$49,089,823	\$3,185,114	\$6,169,174	\$5,958,453
* UAL Unfunded Accrued Liability.				

The fund affected for the Pre-1996 Fund is the state General Fund.

(Revised) *Public Employees' Retirement COLA and 13th Check:*

[Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

Summary of State Fiscal Impact for PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2006.

Current statute has no provision for a COLA in 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$25.994 M. This represents an additional annual funding requirement of about \$1.992 M (about \$0.996 for FY 2007 and \$1.992 M in fiscal years thereafter, representing approximately a 0.126% increase in annual funding as a percent of payroll).

Summary of State Budget Impact for PERF COLA: Although a COLA for 2007 is not provided in current statute, PERF is currently calculating the contribution requirement for the state *in anticipation of passage* of a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$13.111 M. This represents an additional cost of about \$0.500 M in FY 2007, and \$1.00 M in years thereafter, representing approximately 0.063% of payroll.

Summary of Fiscal Impact of 13th Check Provision: This bill also provides for a 13th check to be paid on or before December 1, 2006, to any member (or survivor or beneficiary) who retired before January 1, 2006, and was entitled to receive a monthly benefit on November 1, 2006. The amount shall be equal to \$50 if the retired member had at least ten years of service, plus an additional \$50 for each additional five years of service, to a maximum of \$250. This benefit is payable only to PERF members and does not become part of the base for pension calculations.

The estimated increase in unfunded accrued liability for FY 2007 is \$4.2 M due to the 13th check provision. The increase in annual funding required is \$325,000, representing 0.020% of payroll. This impact is in addition

to the state fiscal impact for the COLA described above and is paid from general assets of the pension fund.

All estimates are based on the July 1, 2005, actuarial valuations. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

Explanation of State Revenues:

Explanation of Local Expenditures: *Teachers' Retirement Fund COLA:* The 1996 Fund is funded with a level percent of payroll contribution, which is currently 7%. It is unlikely that this proposal will change that percent. (See also *Explanation of State Expenditures* for projected benefit payments from the 1996 Fund.)

(Revised) *Public Employees' Retirement COLA and 13th Check:*

Summary of Local Fiscal Impact of PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2006.. Current statute has no provision for a COLA in CY 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$31.766 M. This would result in an additional annual funding requirement of about \$2.422 M in CY 2007 and years thereafter (representing approximately 0.094% of payroll) over what is provided for in current statute.

Summary of Local Budget Impact of PERF COLA: Although a COLA for 2007 is not provided in current statute, future PERF funding requirements are currently calculated *in anticipation of passage* of a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$15.9 M. This represents an additional cost of \$1.2 M in CY 2007 and years thereafter (representing approximately 0.047% of payroll).

The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2007 of \$5.2 M. The increase in annual funding required is \$400,000, representing 0.016% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above. (See *Explanation of State Expenditures* for details on the 13th Check provision.)

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Municipalities and School Corporations.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

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DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according

to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.